

UMW Holdings Berhad

(4588 | UMWK MK) Main | Consumer Products & Services

Sustains Strong Momentum

KEY INVESTMENT HIGHLIGHTS

- **1QFY23 beats consensus expectation**
- **Auto division driven by higher sales volume and associate contribution**
- **Strong automotive order backlog sustaining**
- **Equipment division riding on broad economic recovery, M&E division riding on TIV recovery and air travel resumption**
- **Maintain BUY at TP of RM5.28**

Within ours but ahead of consensus. UMW's 1QFY23 results came in broadly within our estimates but ahead of consensus. The group reported a 1QFY23 net profit of RM135m, accounting for 30%/34% of our/consensus estimates respectively. Group 1QFY23 net profit was up +16%yoy driven by growth across all segments, in particular, the equipment and M&E divisions as well as associate earnings (which mainly comprises of Perodua).

Auto division. The auto division registered a +5%yoy earnings improvement on the back of stronger associate contribution (+13%yoy) given stronger sales volume (Perodua TIV: +28%yoy) and we believe, better margins from higher production. UMW Toyota (UMWT) also saw higher TIV (+12%yoy), while an average 2% price increase across its models since early this year might have partly compensated for higher import cost from the stronger USD.

Strong visibility & momentum. Management updated that as of May, Perodua is still sitting on 192K bookings, while Toyota had 49K bookings, which translates to an average 6-7 months waiting list. The order backlog remains largely similar to that as at end-March, signalling still strong new booking momentum. Management is keeping their 2023 sales target of 314K (+11%yoy) for Perodua and 93K for UMWT (-7%yoy), notwithstanding some issues with chip supply resurfacing, which is being addressed with the help of Daihatsu Motor Corp via alternative sourcing. Management foresees industry TIV sustaining above the 700K mark this year, which echoes our view of 2023F TIV potentially hitting 713K units.

Equipment division. The equipment division saw strong topline growth (+17%yoy) and PBT growth (+62%yoy) on the back of strong demand in local & overseas markets. This was coupled with stronger margins driven by cost optimisation initiatives within the segment. The industrial equipment sub-segment is expected to continue riding on realisation of approved investments in the manufacturing and services sectors in Malaysia, a rebound in China's economy from lifting of pandemic restrictions and growing demand for electric forklifts. Meanwhile, the heavy equipment sub-segment is expected to ride on the multi-year infrastructure projects in Malaysia (e.g., ECRL, LRT 3, Pan Borneo highway) and increased Government spending on connectivity infra (roads & bridges) in Papua New Guinea (PNG). Operations in PNG and East Malaysia were also supported by recovery in mining and plantation.

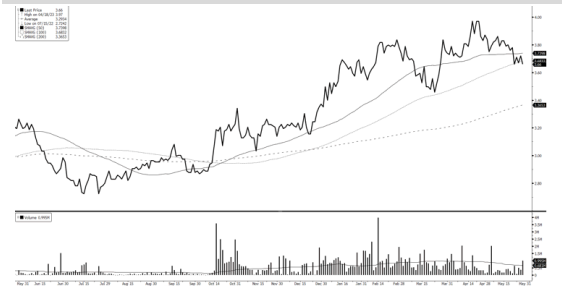
Maintain BUY

Unchanged Target Price: RM5.28

RETURN STATISTICS

Price @ 26 th May 2023 (RM)	3.66
Expected share price return (%)	+44.14
Expected dividend yield (%)	4.15
Expected total return (%)	+48.30

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-4.4	-3.6
3 months	-4.9	-4.0
12 months	9.9	21.2

INVESTMENT STATISTICS

FYE Dec (RMm)	2022A	2023F	2024F
Revenue	15,814.4	15,316.3	15,523.2
Operating Profit	605.5	578.0	569.4
Profit Before Tax	896.5	858.6	848.3
Core PATAMI	415.0	447.5	443.8
Core EPS (sen)	35.5	38.3	38.0
DPS (sen)	14.2	15.3	15.2
Dividend Yield (%)	3.9	4.2	4.2

KEY STATISTICS

FBM KLCI	1,402.98
Issue shares (m)	1168.29
Estimated free float (%)	29.88
Market Capitalisation (RM'm)	4,275.96
52-wk price range	RM2.77-RM4.04
3-mth average daily volume (m)	0.69
3-mth average daily value (RM'm)	2.60
Top Shareholders (%)	
Amanah Saham Nasional Bhd	55.16
Kumpulan Wang Persaraan	9.26
Employees Provident Fund Board	9.22

Analyst

Hafriz Hezry
hafriz.hezry@midf.com.my
03-2173 8392

M&E division. M&E division topline grew +43%yoy while PBT more than doubled (+110%yoy) driven by: (1) Higher contribution from auto components and lubricants, which rides on the cyclical recovery in the auto industry (2) Higher delivery of fan cases for the aerospace segment, driven by resumption of aircraft new orders and clearing of order backlog, on the back air travel recovery post-pandemic. According to management, Rolls Royce’s 2023-25 forecast indicates order numbers are expected to be sustainable and exceed pre-pandemic volumes. We highlight however, that on sequential basis, the M&E segment saw some margin compression as the lubricant segment faced some setback from higher additives and base oil cost. It is looking to address cost by managing the mix of additives, while its new plant which will be ready in 2HFY23 is also expected to improve margins going forward.

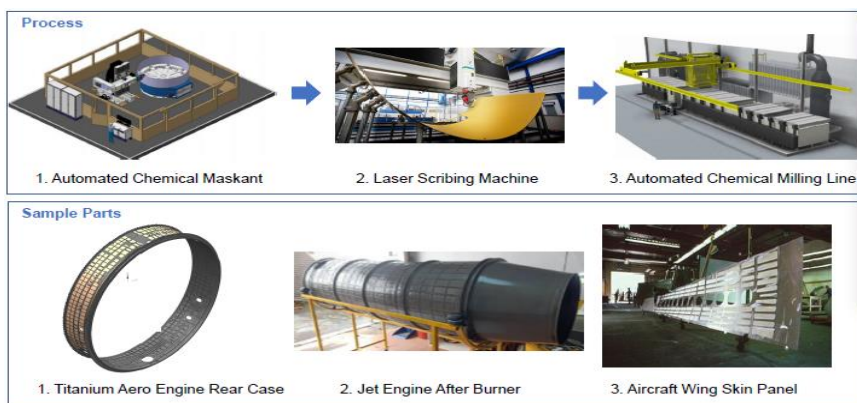
New rear case plant. Management shared that UMW Aerospace’s (UMWA) new rear fan case manufacturing plant is expected to commence commercial operations in 2025. To recap, the new plant involves a capex of RM65m (mainly to acquire chemical milling capabilities) while the supply contract (for both Trent 1000 and 7000 engine rear cases) is valued at RM1b over a 15-year period. At present, the rear fan case is imported from overseas and assembled into a complete fan - localisation of the rear fan case is expected to improve UMWA margins from FY25F onwards. The rear fan case volumes are expected to mirror supply volumes of the overall fan case as it forms part and parcel of the entire fan case module. Importantly, acquisition of chemical milling capabilities is expected to be a game changer for UMWA as it will be the 1st in Southeast Asia with this capability, which could open doors for manufacturing of other precision aero components such as jet engine after burners and aircraft wing skin panels.

Exhibit 1: Fan case kit breakdown

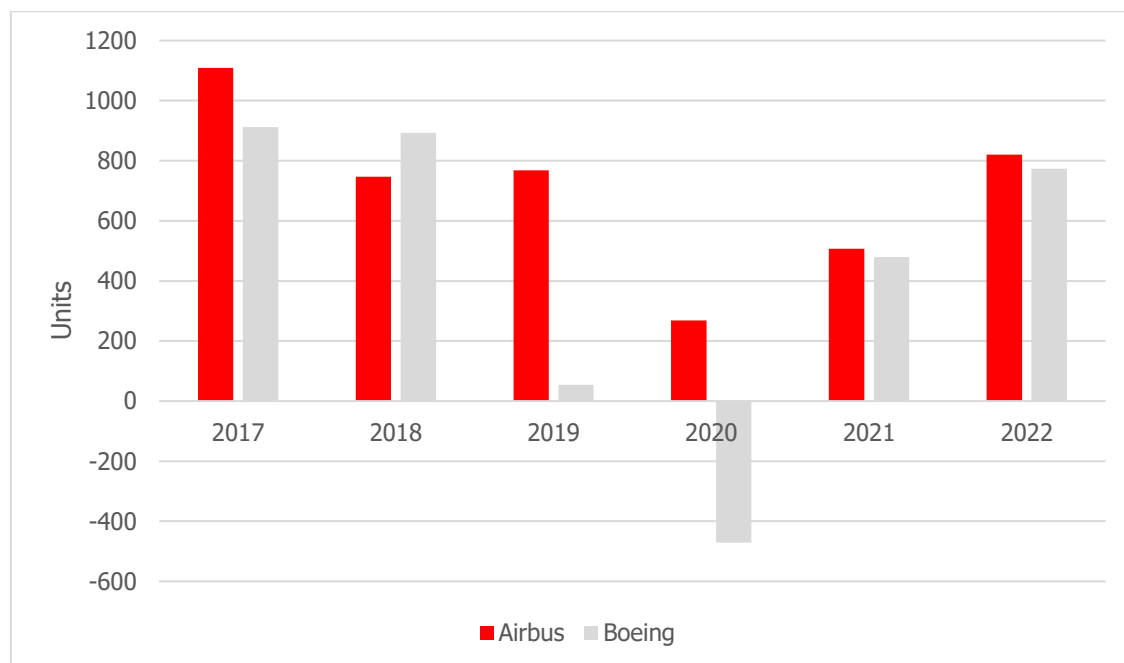


Source: Company, MIDFR

Exhibit 2: Chemical Milling Process (Top) and Parts (Bottom)



Source: Company, MIDFR

Chart 1: Swift Rebound in (Net) Aircraft Orders at Airbus and Boeing

Source: Companies, MIDFR

Earnings estimates. We keep our FY23F/24F projections as the results were broadly in-line with our expectation.


Recommendation. We maintain our **BUY** call and SOP-derived **TP** at **RM5.28** – the stock is currently trading at undemanding FY23F PER of 9.6x, a -24% discount to historical mean. We like UMW as it is a prime beneficiary of a strong recovery in auto demand given its dominant market share of ~52% (via 51%-owned UMW Toyota and 38%-owned Perodua). The equipment division meanwhile, is a proxy to recovering business momentum, rising infrastructure projects and commodity demand, whereas aerospace is an indirect reopening play on the back of a recovery in global air travel. While aerospace currently makes up a small portion of our sum-of-parts, we see this as a strategic exposure with room for both horizontal and vertical growth from the expansion of its aero manufacturing capabilities and the strong platform it has as a Tier-1 supplier to Rolls Royce. Meanwhile, UMW's net cash position stands at RM796m (RM0.68/share, 19% of market cap) which underpins higher dividend payout and M&A potential. Key risk to our call is a significant weakening of the Ringgit, further lockdowns and a worse than expected component shortage situation. 

Table 1: UMW sum-of-parts valuation

Segments	Valuation Method	Multiple (x)	Value (RMm)	Comments
Automotive	PER	11	5,580.4	FY23F PER; 11x
Equipment	PER	11	782.0	FY23F PER; 11x
M&E	PER	8	301.9	FY23F PER; 8x
Aerospace	DCF		754.5	Equity Value of 25-year Rolls Royce contract (WACC: 8.7%)
Serendah Land	RNAV		871.2	RNAV of Serendah land (500acres@RM40psf)
Perpetual Sukuk			(1,097.9)	
Holding co net debt			(1,028.6)	
Total Value			6,163.6	
Shares out.			1,168.3	
Value/share (RM)			5.28	

Source: Company, MIDFR

Table 2: UMW 1QFY23 Result Summary

FYE Dec (RMm)	1Q22	4Q22	1Q23	YoY	QoQ
Revenue	3,650.8	4,375.4	4,379.6	20.0%	0.1%
EBITDA	227.5	241.7	214.7	-5.6%	-11.2%
Operating Profit	145.8	155.4	128.8	-11.7%	-17.1%
Finance Cost	(39.0)	(28.3)	(15.4)	-60.6%	-45.7%
Associates	96.5	67.8	109.3	13.2%	61.3%
Investment Income / Other gains	13.0	23.8	28.1	116.5%	17.9%
Pretax Profit	216.3	218.6	250.7	15.9%	14.7%
Taxation	(43.5)	(46.5)	(47.0)		
Minorities / PERP	71.6	66.2	69.3		
Net Profit	101.2	106.0	134.5	32.9%	26.9%
Core net profit	101.2	106.0	134.5	32.9%	26.9%
Core EPS (FD, sen)	8.7	9.1	11.5	32.9%	26.9%
DPS (sen)	0.0	11.2	0.0	NA	NA
Margins (%):				ppts	ppts
Operating	4.0%	3.6%	2.9%	-1.05	-0.61
Pretax Profit	5.9%	5.0%	5.7%	-0.20	0.73
Core Net Profit	2.8%	2.4%	3.1%	0.30	0.65
Tax Rate	20.1%	21.3%	18.7%	-1.36	-2.51
EBITDA	6.2%	5.5%	4.9%	-1.33	-0.62

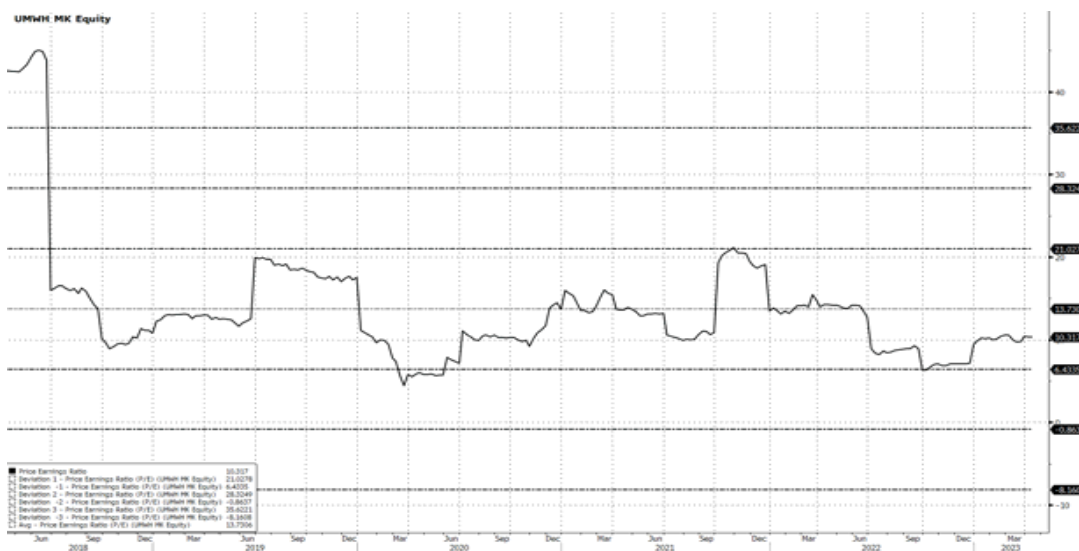
Source: Company, MIDFR

Table 3: UMW 1QFY23 Result Segmental Breakdown

Segmental Breakdown (RMm)	1Q22	4Q22	1Q23	YoY	QoQ
Revenue					
Automotive	3,070.2	3,694.9	3,626.9	18.1%	-1.8%
Equipment	371.8	395.3	434.9	17.0%	10.0%
Manuf & Eng	227.1	278.5	323.6	42.5%	16.2%
Others	(18.3)	6.7	24.5	234.0%	264.0%
PBT					
Automotive	205.8	182.6	217.0	5.4%	18.8%
Equipment	31.8	35.7	51.3	61.6%	44.0%
Manuf & Eng	10.6	29.2	22.4	110.5%	-23.4%
Others	(31.9)	(28.9)	(40.0)	-25.2%	-38.5%
PBT margin				ppts	ppts
Automotive	6.7%	4.9%	6.0%	-0.72	1.04
Equipment	8.5%	9.0%	11.8%	3.26	2.78
Manuf & Eng	4.7%	10.5%	6.9%	2.24	-3.57
Perodua TIV (units)	61,624	85,666	78,565	27.5%	-8.3%
Toyota TIV (units)	22,270	29,909	25,030	12.4%	-16.3%
USD:RM (delayed by 3-months)	4.19	4.48	4.57	9.2%	2.0%
Net profit					
Automotive	125.9	112.0	146.2	16.1%	30.6%
Equipment	21.3	25.0	36.0	69.2%	43.9%
Manuf & Eng	3.7	19.3	10.6	187.8%	-45.1%
PERP payment	(17.5)	(17.6)	(17.5)	0.0%	-0.8%
Others	(32.2)	(32.7)	(40.8)	27.0%	24.8%

Source: Company, MIDFR

Chart 2: UMW Currently Trading at ~0.5SD below historical mean PER



Source: Bloomberg, MIDFR

FINANCIAL SUMMARY

Income Statement (RMm)	2020	2021	2022	2023F	2024F
Revenue	9,554.6	11,060.8	15,814.4	15,316.3	15,523.2
Operating expenses	(10,423.7)	(10,547.1)	(15,031.0)	(14,738.3)	(14,953.7)
Operating profit	257.7	274.2	605.5	578.0	569.4
Net interest expense	(115.5)	(108.2)	(114.1)	(71.4)	(71.4)
Associates	204.1	268.0	334.9	352.1	350.3
PBT	400.7	482.8	896.5	858.6	848.3
Taxation	(77.7)	32.9	(218.6)	(126.6)	(124.5)
Minority Interest/PERP	118.3	247.4	262.8	284.5	280.0
Net profit	204.6	268.2	415.0	447.5	443.8
Core net profit	240.9	196.8	415.0	447.5	443.8
Balance Sheet (RMm)	2020	2021	2022	2023F	2024F
PPE	2,463.0	2,531.4	2,706.2	2,910.4	3,089.0
Investments in associate	2,015.9	2,170.6	2,362.3	2,714.4	3,064.7
Others	976.5	1,090.7	983.2	983.2	983.2
Non-current assets	5,455.3	5,792.7	6,051.7	6,608.0	7,136.9
Inventories	1,439.3	1,752.2	2,045.7	1,531.6	1,552.3
Receivables	1,059.1	904.2	1,124.3	1,279.7	1,297.0
Others	1,442.5	782.2	387.2	387.2	387.2
Cash & equivalent	2,050.9	2,941.4	2,808.1	2,963.3	2,915.1
Current assets	5,991.8	6,380.0	6,365.4	6,161.9	6,151.6
Share capital	584.1	584.1	584.1	584.1	584.1
Minority Interest	2,549.0	2,646.1	2,789.9	3,004.6	3,214.7
Reserves	3,284.0	3,532.3	3,765.9	4,034.4	4,300.7
Total Equity	6,417.2	6,762.5	7,140.0	7,623.1	8,099.5
Long-term borrowings	1,942.3	2,095.0	1,339.9	1,340.1	1,340.2
Deferred tax liabilities	47.8	48.4	60.8	60.8	60.8
Others	243.6	247.0	274.3	274.3	274.3
Non-current liabilities	2,233.7	2,390.4	1,675.1	1,675.2	1,675.4
Short-term borrowings	523.8	638.1	212.3	212.3	212.3
Payables	2,156.2	2,248.8	3,292.8	3,182.8	3,225.8
Others	116.2	132.9	96.9	76.4	75.6
Current liabilities	2,796.2	3,019.8	3,602.1	3,471.5	3,513.7

Cash Flow Statement (RMm)	2020	2021	2022	2023F	2024F
PBT	400.7	481.0	929.8	858.6	848.3
Depreciation & Amortization	374.1	343.5	340.6	351.8	378.3
Chgs in working capital	419.9	(232.4)	524.8	262.2	4.2
Others	(248.3)	(330.8)	(591.7)	(478.7)	(474.8)
Operating cash flow	946.3	261.4	1,203.4	993.9	756.1
Capex	(700.0)	(406.2)	(509.9)	(700.0)	(700.0)
Others	589.5	790.9	559.4	144.0	143.0
Investing cash flow	(110.5)	384.8	49.5	(556.0)	(557.0)
Dividends paid	(23.4)	(46.7)	(168.8)	(179.0)	(177.5)
Net movement in borrowings	0.2	0.2	(880.0)	0.2	0.2
Others	(214.3)	86.0	(483.8)	(103.9)	(69.9)
Financing cash flow	(237.5)	39.4	(1,532.6)	(282.8)	(247.2)
Net changes in cash	598.3	685.6	(279.7)	155.2	(48.2)
Beginning cash	1,411.5	2,006.5	2,700.3	2,808.1	2,963.3
Forex, Overdrafts & Deposits	41.2	249.3	387.6	0.0	0.0
Ending cash	2,050.9	2,941.4	2,808.1	2,963.3	2,915.1

Key Ratios	2020	2021	2022	2023F	2024F
Operating profit margin	2.7%	2.5%	3.8%	3.8%	3.7%
Core net profit margin	2.5%	1.8%	2.6%	2.9%	2.9%
ROE	5.4%	6.7%	10.0%	10.0%	9.3%
ROA	2.3%	2.3%	5.9%	4.6%	4.4%
Net gearing (%)	6.5%	-3.1%	-17.6%	-18.5%	-16.8%
Book value/share (RM)	3.31	3.52	3.72	3.95	4.18
PBV (x)	1.2	1.1	1.0	0.9	0.9
PER (x)	18.5	22.7	10.3	9.6	9.6

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology